



**MONTROSE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**SUSQUEHANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006 TO DECEMBER 31, 2007**



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## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended 53 P.S. § 895.701 et seq. (commonly referred to as Act 205), are properly expended.

The Montrose Volunteer Firefighters' Relief Association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality.

BACKGROUND (Continued)

The Montrose Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Bridgewater Township	Susquehanna	\$17,248	\$17,565
Dimock Township	Susquehanna	\$ 2,625	\$ 2,692
Franklin Township	Susquehanna	\$ 2,445	\$ 2,453
Jessup Township	Susquehanna	\$ 1,668	\$ 1,702
Montrose Borough	Susquehanna	\$ 9,373	\$ 9,426

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Montrose Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

United Fire Company

Mr. Charles E. Daly, President  
MONTROSE VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Susquehanna County

We have conducted a compliance audit of the Montrose Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2007.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Montrose Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objective. We also tested transactions, confirmed the Montrose Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodian of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our audit for the period January 1, 2006 to December 31, 2007, found, in all significant respects, the Montrose Volunteer Firefighters' Relief Association did not receive and expend funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the following findings discussed later in this report. The results of our tests indicated the Montrose Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$15,996 and an investment balance with a fair value of \$98,519.

Finding No. 1 – Undocumented Expenditure

Finding No. 2 – Failure to Account for Insurance Reimbursements

Finding No. 3 – Related Party Situation

Finding No. 4 – Inadequate Minutes of Meetings

We also noted another matter that has been included in the following observation discussed later in this report.

Observation – Diversification of Investments

The contents of this report were discussed with the management of the Montrose Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

June 17, 2008

JACK WAGNER  
Auditor General



MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for a \$39,500 expenditure to the United Fire Company, on December 19, 2007.

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as invoices and detailed minutes of relief association meetings, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice, made it impossible to determine the expenditure was made in accordance with Act 84 at 53 P.S. § 8506(e).

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as an invoice, to determine the validity of the expenditure or that the relief association be reimbursed \$39,500 for the undocumented expenditure. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management was notified of the finding through a certified letter. The relief association president originally indicated he would obtain adequate documentation to support the expenditure but no documentation has been provided to date.

MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Account for Insurance Reimbursements

Condition: During the audit period, the relief association paid a total of \$13,965 for cancer insurance premiums on behalf of its members and their families. The relief association collected \$1,460 in reimbursements applicable to the family members' portion of the expenditures. However, the relief association did not maintain an adequate accounting of the amount expended for each family member and the related reimbursements. We were therefore unable to determine if the proper amount was reimbursed for the family portion of the expenditures.

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as a detailed accounting of amounts expended for each family member and details of amounts reimbursed for each family member, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure detailed supporting documentation is maintained for all expenditures and related reimbursements.

Effect: Lack of supporting documentation, such as detailed disbursement and reimbursement records, made it impossible to determine if the relief association only paid the members' portion of the cancer insurance.

Recommendation: We recommend the relief association obtain and review the detailed insurance invoices which reflect the premium amounts attributable to the family members and receive additional reimbursement for any insurance premiums paid for family members. We also recommend the relief association discontinue the practice of paying the family portion of the cancer insurance. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Relief association management was subsequently notified of the added finding through a certified letter. The relief association president initially indicated he would obtain adequate supporting documentation but no documentation has been provided to date.

MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Related Party Situation

Condition: Relief association officials failed to document disclosure of a related party situation to the relief association membership. The relief association has a related party situation that exists because the relief association does business with a vendor that is owned by a relief association officer. During the current audit period, the relief association purchased \$20,013 of equipment from this vendor. However, the related party situation was not documented in the meeting minutes.

A related party situation occurs when the relief association deals with a business that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a situation may provide a financial benefit to the related party through a commission or a profit from a sale.

Criteria: All related party situations should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, the individual involved in the related party situation should abstain from all votes concerning his place of employment.

Cause: Relief association officials were aware that related party situations should be disclosed to the membership but failed to disclose the related party situation to the membership.

Effect: Failure to properly disclose a related party situation may create a potential conflict of interest which could result in misleading or inappropriate financial statement presentation for the relief association.

Recommendation: We recommend the relief association officials take the actions necessary to eliminate the appearance of a conflict of interest. Actions should include, but are not limited to, a written notification to the relief association membership of each related party transaction, and the abstention of the relief association official from decisions and voting rights which involve his place of business. These actions should be documented in the relief association's minutes. Furthermore, the relief association should closely review all related party transactions to ensure that the cost of the services rendered by the firm is competitive.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings, as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions, which occurred during the audit period.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Cause: Relief association officials were aware that maintaining detailed minutes of meetings was required by Act 84, but failed to adequately document all of the financial-related transactions.

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, including all financial-related business conducted by the relief association. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act<sup>1</sup>, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."<sup>2</sup>.

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As of December 31, 2007, the VFRA had \$98,519 (fair value) or 86% of the VFRA's cash and investments in mutual funds.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

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<sup>1</sup> 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

<sup>2</sup> 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported in Finding Nos. 1 and 2 may lead to a total withholding of state aid in the future unless the findings are corrected. However, such action will not be considered if sufficient documentation is provided within 30 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 406 Finance Building, Harrisburg, PA 17120.

MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2007

Act 84 at 53 P.S. § 8502(1) states, in part, that:

A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 18,490
Relief benefits	352
Total Benefit Services	\$ 18,842
Fire Services:	
Equipment purchased	\$ 27,018
Equipment maintenance	8,760
Training expenses	2,646
Total Fire Services	\$ 38,424
Administrative Services:	
Officer compensation	\$ 1,050
Other administrative expenses	2,695
Total Administrative Services	\$ 3,745
Other Expenditures:	
Undocumented expenditure	\$ 39,500
Total Other Expenditures	\$ 39,500



MONTROSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Montrose Volunteer Firefighters' Relief Association Officers:

Mr. Charles E. Daly, President

Ms. Renee Coy-Daly, Secretary

Mr. Michael D. Rosin, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Connie Ely, Secretary  
Bridgewater Township

Mr. Paul Jennings, Secretary  
Dimock Township

Ms. Shirley A. Smith, Secretary  
Franklin Township

Ms. Janis Bunnell, Secretary  
Jessup Township

Ms. Annette M. Rogers, Secretary  
Montrose Borough

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).